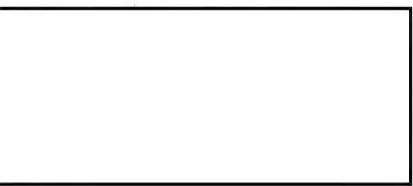


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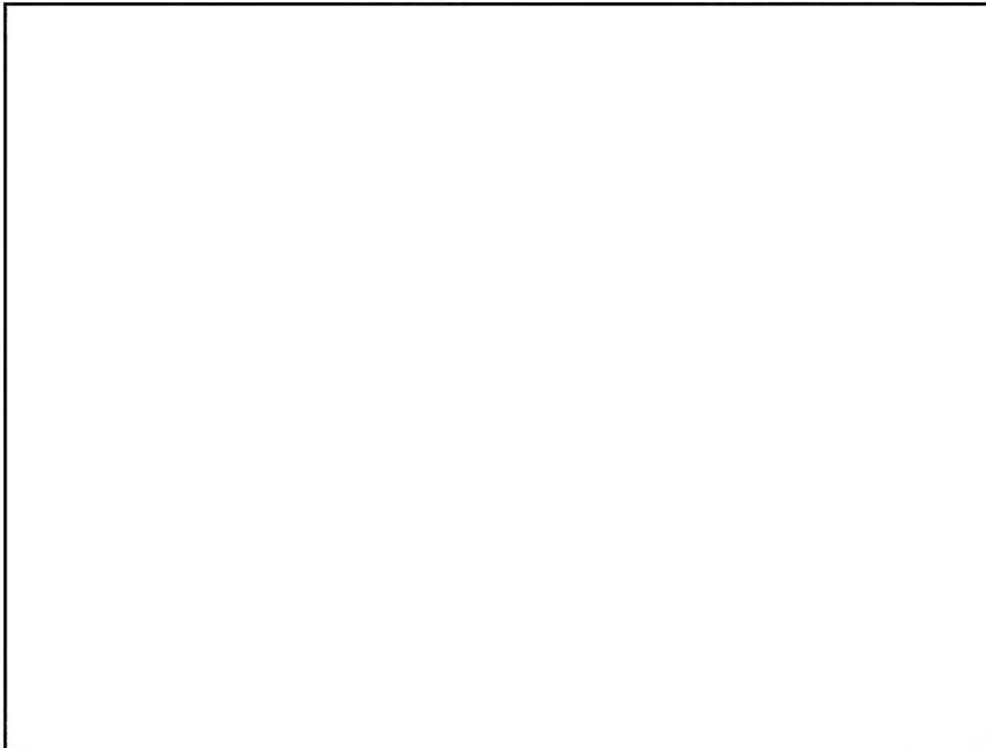
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DOCUMENT NO. 45
NO CHANGE IN CLASS.
 DECLASSIFIED
CLASS. CHANGED TO: TS S C 2001
NEXT REVIEW DATE:
AUTH: HR 70-2
DATE: 2-16-79 REVIEWER:

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THE ARAB-ISRAELI SITUATION

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1. SHAH COMMENTS ON VISIT TO USSR

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[Redacted]

Khrushchev "more than once" told the Shah of Iran during the latter's recent trip to Moscow that the Soviet Union did not want war but that it was prepared, if war were a certainty, to take the offensive, according to a conversation between the Shah and Ambassador Chapin in Tehran.

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Khrushchev said that England could be put out of war with seven of the latest nuclear bombs and Turkey with eleven. He added that the USSR would not have to use conventional forces in Turkey. The Shah said he supposed these remarks were indirectly addressed to Iran, though he was convinced that the USSR did not want war. The Soviet leaders said their policy toward Turkey and Iran in the past had been faulty and blamed it on "that damn crowd of Georgians."

The Shah was also told that as an indication of the USSR's "new policy of friendship" toward Iran, the Soviet ambassador would be replaced. Foreign Minister Shepilov said he was confident that no other Arab state "under any circumstances" would ever join the Baghdad pact.

Soviet leaders told the Shah they were making no specific offers of assistance at this time "lest they embarrass" him, but they assured him they were prepared to "give assistance of any kind and in any amount should the Iranian government so desire." The Shah said that the only economic aid that he had accepted was for the common development of resources along the Iranian frontier, including power and irrigation works.

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2. FRENCH GOVERNMENT THREATENED BY STRONG ASSEMBLY OPPOSITION TO NEW TAXES

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[Redacted]

Premier Mollet will face his strongest opposition to date in the assembly debate on 24 July on his tax proposals to finance the Algerian campaign, in the opinion of the American embassy in Paris, and the outcome seems highly

uncertain even if he makes the issue a vote of confidence. In addition to expected Poujadist and Communist opposition, there is general dissatisfaction in the assembly with the new tax proposals on top of those for increased old-age benefits and much uncertainty as to the government's over-all economic and financial policy.

The assembly finance committee is expected to recommend rejection of the proposed direct tax increases on income and corporate profits, which are also strongly opposed by the employers' association and criticized by the labor unions.

Comment

The mounting inflationary spiral in France has increased the importance of financial issues as a threat to the government.

The cabinet has authorized Mollet to declare the tax proposals an issue of confidence and he is likely to make a patriotic appeal for support. Unwillingness to upset Mollet at this juncture of the Algerian campaign continues to be a strong factor in the National Assembly. The opposition may therefore try to employ delaying tactics on tax legislation until after the summer recess, when the situation in Algeria may have become clarified.

[Redacted]

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✓ 5. TITO-NEHRU-NASR COMMUNIQUE

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The vagueness of the Tito-Nehru-Nasr communique of 20 July reflected the desire of all three leaders to avoid antagonizing either the West or the Sino-Soviet bloc. It stressed the need to work through the United Nations and personal diplomacy to relax world tension.

Nasr's acceptance of Nehru's proposals for a cease-fire in Algeria to be followed by direct negotiations is a departure from the Arabs' previous stand that the issue should be brought to the UN.

The direct reference to the "great importance of removing embargoes and obstacles to the normal flow and extension of international trade" is an obvious slap at Western strategic trade controls. Nasr presumably does not intend his statement to refer to the Arab boycott of Israel, however.

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6. JAPAN LIBERAL-DEMOCRATS STUDY PROBLEM OF SUCCESSOR FOR HATOYAMA

[Redacted]

Agriculture and Forestry Minister Kono has informed Ambassador Allison that Liberal-Democratic Party leaders intend to select a successor to Prime Minister Hatoyama during August. He said party secretary general Kishi is a likely choice, but that there is considerable opposition to his selection which would require time to overcome.

He added that in any event there would be a cabinet reshuffle in the next few months, with Kishi entering the cabinet. Kono himself would resign to take over Kishi's present post.

Comment Government party leaders have become increasingly aware that Hatoyama's failing health and enfeebled leadership have created a pressing need to designate his successor, and the retirement of the prime minister prior to the next regular Diet session in December is more and more likely. Kishi, who is a prominent contender for the prime ministership, has often asserted that he favors co-operation with the United States but on a basis of greater "mutuality." Many conservatives, however, consider him too inexperienced for the post, and the contending party factions may agree as an interim measure on some older and less controversial conservative.

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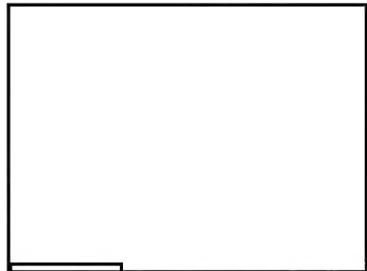
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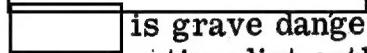
7. BRAZILIAN OFFICIAL WARNS OF POLITICAL AND ECONOMIC DETERIORATION

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Secretary General Souza Gomes of the Brazilian Foreign Ministry told American chargé Trimble on 19 July that if Brazil's economic and political situation continues to deteriorate, there

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is grave danger that either the military with their "narrow nationalist outlook" will become the dominating force or that Communist influence will assume threatening proportions. He referred to the Communists' intensive efforts to control Brazil's atomic energy policy just as they had joined with ultranationalists to establish the national petroleum monopoly.

President Kubitschek has recently adopted firmer anti-Communist measures because of growing concern over Communist exploitation of economic difficulties and nationalist attitudes, especially among the opposition. Extreme nationalist tendencies also extend into Kubitschek's Social Democratic Party but have been openly denounced by Kubitschek and the dominant faction of the party.

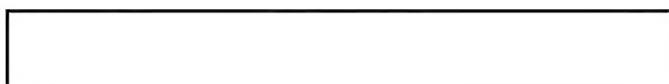
Trimble comments that while the political situation is confused and the economy increasingly threatened by growing inflation, Souza Gomes' views are colored by the fact that the Foreign Ministry has been losing influence in recent months.

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THE ARAB-ISRAELI SITUATION
(Information as of 1700, 20 July)

An Israeli military spokesman charged
that Syrian gunners fired on two Israeli fishing boats and a
police launch on Lake Tiberias. No casualties were reported.

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